A TREATISE ON THE IMPORTANCE OF INTERNATIONAL AGREEMENT ON FINANCIAL REHABILITATION AFTER THE WAR

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DANGER FROM LACK OF A CO-ORDINATED ALLIED FINANCIAL POLICY.

During the period of the great war the finances of the entire world have undergone radical changes.

Disregarding the colossal increase of Government indebtedness, and consequently the steady growth in the budgets, the monetary systems everywhere have become impaired or entirely shattered. In fact, it may be said that the monetary system of the world is undermined. The banking institutions are functioning in an unhealthy, abnormal manner, national balances are concluded by force, and, in many instances, there are no methods under consideration for a resumption of normal conditions for many years to come.

The financial collapse of many States is assuming such proportions that it has ceased to be an internal calamity and is now threatening the welfare of other countries, including those financially strong. This shows clearly the financial solidarity of all countries of the world. Financial questions are now becoming international in scope. Therefore, a thorough examination of the principles underlying the finances in individual countries in the pre-war period is becoming most urgently necessary and demands the formulation of a basic international financial policy for the future. This is especially urgent, for, should one group of countries be too late in equipping themselves with a new policy as a basis for their finances, at the conclusion of peace, they will be confronted with a carefully formulated, impervious, and, in all probability, a selfish financial policy of the other group of powers; or, what is no better, they may discover that the financial mistakes of even one country may make it impossible for the remainder to rectify their position.

7-28-19. G. of J. M. Beck.

SITUATION IN THE COUNTRIES SUFFERING FROM PAPER CURRENCY INFLATION.

In Austria and Russia, during the war, the gold currency system has been almost entirely replaced by a paper-money system. In Austria the gold security is only one and one-half percent. Early in the war, nearly her entire gold supply was ceded to Germany, and, in place of the 1,650,000,000 crowns of paper money on the eve of the war, it seems that Austria has at the present moment not less than 30,000,000,000 paper crowns in circulation. In Russia, on the eve of the war, the 1,633,000,000 paper rubles in circulation were guaranteed by almost an equivalent in gold rubles. Now Russia has about 40,000,000,000 paper rubles.* The gold security of Russia, on the eve of the Bolshevik Revolution, even after large shipments had been made to England, amounted to 1,250,000,000 rubles. A considerable portion of this gold supply has been stolen since that time by the soldiers who "guarded" it, and part of it probably will be shipped to Germany in payment of the indemnity.

Thus, two great powers, Russia and Austria, with a population of over 200,000,000, are excluded from international commerce—a calamity for these two countries. Having passed through the most serious economic reverses, they need now as never before the importation of merchandise from abroad. Meanwhile, they are not in a position to accomplish it on account of their inability to make acceptable payments. On the other hand, it is also a calamity to those countries which are able to supply them with the products of their industries, for there is only one way in which the economic wounds inflicted upon the entire world by the war can be healed and that is through intensifying world production. This production must find a market. Therefore, the producing countries are in need of markets, no less than the consuming countries are in need of foreign merchandise.

The financial bankruptcy of Austria-Hungary and of Russia makes it extremely difficult for them to do business with foreign countries, for their final national balances are threatening to be

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* This represents only the issue of the so-called Central Government. In addition, there are in circulation many billions which have been issued by the various municipal and provincial "governments."

wofully negative. The old pre-war methods of regulating national balances have already outlived their usefulness. During the period of the war Russia had to abandon the old method of buying gold to cover her financial deficit through the floating of Government loans, or loans guaranteed by concessions, in the money markets of countries whose national balances were positive. The securing of credit from private individuals abroad on Russian Government notes, or the disguised sale, or mortgage of Russian national property by governmental authorities, private companies or individuals, became impossible. The necessity of utilizing their own markets for their own financial operations forced the governments of all countries to close their money markets to foreign issues. However, since purchases abroad on the part of Russia (and other countries as well), principally of war materials, became politically necessary, an entirely new method for covering the deficit in the total national foreign balance* had to be devised, and this took the form of direct credit extended by one government to the other. The government treasuries have pushed aside the banks and stock exchanges. The artificial character of this method, excluding the possibility of automatic self-regulation, which in the past was supplied by the commercial insight of exporters and importers, and the evident inadequacy of the credits opened to fully satisfy the demand for foreign exchange, brought to life two new, and what seemed to be temporary, institutions for a distribution of exchange to the applicants for it. This in effect was a pretext for the regulation of foreign trade.

There was established:

(1) A Russian Government organization for the purpose of distributing the exchange available in Russia among private individuals and firms. It soon took up not only the distribution of exchange to cover Allied credits, but it assumed control over every kind of exchange, including even the exchange received by Russian exporters.

(2) An English Government organization, frankly and directly speaking, established for the purpose of verifying the appli-

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* Includes foreign trade balance, payments on foreign indebtedness, travelers' expenses, shipping freights and sums sent home by immigrants.

cations for exchange, not only of private Russian individuals, but the Russian Government itself, as well as of various semi-official so-called public institutions.

Russia very quickly perceived that these organizations would not be temporary, but that they were the nucleus of permanent State and International institutions for the regulation of foreign trade. As early as 1916, a member of the State Duma, on examining the question of saving Russia's currency system, recommended that the project of having the government establish control over cereals, Russia's principal export item, be taken up immediately. Later, the Department of Forestry prepared a plan (very unsatisfactory in its details) for a monopolization of the timber export. Two banks had organized two companies, extending a monopoly over the exportation of leather and chemical products. The Russian Government was to participate in their profits; an idea, by the way, of purely Russian origin. Finally, the All-Russian Council of Congresses of Representatives of Industries and Commerce, after the Revolution, introduced a project for a monopoly, under Government control, of the entire foreign trade of Russia. This project was carried out by the Bolsheviks, not as successfully as daringly—or, more correctly speaking, it was put through as a decree, in the form of the so-called nationalization of foreign trade.

It also became clear that a new basis for regulating the question of Russia's total national foreign balance in its narrow technical meaning, i. e., the question of exchange, was inevitable. In that same year, 1916, one of the members of the State Duma, examining the report of the Minister of Finance on the status of Russia's finances, pointed out that the termination of the war would bring an end to "gold fetishism." He expressed the view that the requirement of gold as a basis for building monetary systems, in just the same manner as it was customary prior to the war, would be disregarded, and final national foreign balances would be regulated by a kind of "bookkeeping" system in place of the method practised today—actual shipments of gold and the floating of gold loans.

Later, this same idea was expressed at the Paris International Economic Conference by Luzzatti, an eminent Italian financier. Neither he nor anybody else ever expressed this thought in the concrete form of a business proposition which, by

the strength of its simplicity and practicability, might receive universal recognition. There were many methods proposed and many more may be devised. Among these were: The idea of establishing an international accounting chamber; the introduction of the Federal Reserve system of the United States all over the world; the internationalizing of the gold reserves of the countries of the entire world and establishing, on the basis of this combined reserve, one particular international monetary unit for the settlement of international trade accounts, and, generally, for use in any international cash operations; the idea of the internationalization of the statutes governing the issuance of currency in all countries (which ultimately would deprive gold of its monetary significance)—that is, restricting the issuance of paper currency, just as the Latin Money Union once imposed restrictions on the coinage of five-franc pieces, etc.

In any event, an analysis of the financial situation, after the war, of those countries which have either already succumbed or are approaching a complete financial and economic collapse, brings to the foreground, with great emphasis, the following two assumptions:

(1) That the rehabilitation of the monetary systems of such countries is not a purely internal matter, but, on the contrary, a problem of the greatest international importance and interest.

(2) That the regulation of the national balances of such countries cannot be accomplished from within themselves, but requires international intervention and assistance; therefore, it is of immediate importance to work out methods and make provisions for this international action.

SITUATION IN THE COUNTRIES WITH UNSTABLE GOLD EXCHANGE.

The second group is composed of those countries whose monetary systems, though seriously impaired, have escaped utter collapse, thanks to the compulsory measures they adopted. Most likely, under certain conditions, they will escape entirely. Such countries are France and Germany.

On account of the intermediate position of these countries, an analysis of their financial situation will not lead us to such striking conclusions as may be obtained from a review of the countries which have utterly collapsed. But the very fact of the

artificiality of the measures, by which they uphold their foreign exchange, inevitably suggests the extreme instability of their position.

Coercion in the economic field has very limited possibilities. You cannot "command" an economic occurrence to take place.

The success of any economic policy is possible only if it quickly grasps the meaning of the changes brought about by life, and regulates them, instead of trying to crowd life into a theoretically devised scheme. This has been best proven by the Russian Bolsheviks. The basis of their activity is the firm belief in the power of "command" in the economic field. However, life itself has proven with sufficient clearness that their socialistic experiment, taken as a whole, might have met at least with some success, had it been carried out on an international scale. Since the experiment has been tried only in Russia, it ended with the most shameful defeat, and even each separate measure introduced, which was contrary to life itself, brought directly opposite results from those intended. Instead of benefiting the favored working class, who were really granted all kinds of privileges, the welfare and entire future of just that class has been completely undermined. It is the Russian workingman who will sustain the greatest loss from the Revolution and he will emerge from it discredited. His future is truly appalling. Besides unemployment, he will have to pass through a period of universal hatred, particularly the hatred of the peasants. The cause of this undoubtedly lies in the compulsory economic policy which, in the name of the working people, was carried out by the ignorant leaders of the revolutionary proletariat.

Final defeat is the eventual outcome of all forcible economic measures, which aim at suppressing life. Hence, all artificial measures adopted by the French Government to uphold the purchasing power of the franc in the interior of the country, and its exchange value in foreign markets, will sooner or later become powerless. At the present moment, the success of these measures is sustained to a considerable degree by the patriotic spirit of the French, and, to some extent, by the restrictions placed upon travelling abroad. But when the war is over, and the need of patriotic sacrifice has ceased to be clear to the population, when the "profits" of individual citizens from government war orders have come to an end, when, on the contrary, it will become necessary to meet exorbitant taxes to cover interest on the colossal

expenditures made during the period of the war, and for the restoration of the destroyed portions of the country, nothing will be able to prevent the individual citizen from resorting to *any* means to increase his own income—including measures which may prove fatal to the value of the franc.

For instance, it will be impossible to prevent the French "rentier" from carrying gold away from the country in the pursuit of American exchange "at any price," when the loans of the very same large cities of France are now quoted on the Paris Stock Exchange at 5 to 5½% and on the New York Stock Exchange at 11½ to 14.4%, besides being exempt from any possible French "property tax." The French Government could prevent these transactions with some hope for success only if certain prohibitive measures were accepted not only on the Paris Exchange, but on the New York Exchange as well, and better still, also on neutral exchanges. The profitableness of "exchanging" a bond of, for instance, the city of Bordeaux for an American bond of the same city is so obvious and so large that the francs might flow to New York and in a roundabout way—through the neutral stock exchanges.

Consequently, the extreme desirability of the introduction in France of certain international measures in the field of foreign trade (including exchange) is beyond dispute.

The situation in Germany is still more acute. All Germany is living in the hope of receiving raw materials *immediately* upon the termination of the war. It is perfectly understood that the Germans started this war with the object of conquering foreign markets for the sale of their products and in order to secure raw materials for their overdeveloped industries. The securing of raw materials is a question of serious concern immediately peace has been concluded. It will be necessary to give employment, and profitable employment, to the demobilized armies. Consequently, it will be necessary to keep all factories running at full speed. Germany, provided herself with machinery better than any other country, through plundering the factories and plants of Belgium, northern France and Poland, and she will be able to resume her former production so soon as the war is over, provided she can obtain raw materials. This is as essential for the working class, as it is for the owners of industries. The experience of Russia has proven how industrial men

were able to secure, as though from "underground," the foreign exchange they needed, in spite of all restrictions imposed by the government. Under such conditions the exchange value of the mark, may, if not entirely collapse, depreciate considerably. In all probability, the German Government and the German banks themselves will take measures to safeguard the mark. Nevertheless, it must suffer from some temporary depreciation. But even from the point of view of the interest of the Allies, this must not be permitted, for it is generally known that a low exchange rate of the monetary unit of a country is the greatest obstacle to imports, and the best premium for exports. A *certain* lowering of the exchange rate of the mark will be of such decided advantage to German export that it will more than cover the loss incurred in connection with the payment of high prices for whatever merchandise they do import. Under certain conditions, all competition from other countries may be stifled by German industry.

It must be firmly borne in mind that the war started and is going on for economic reasons. The Prussian military clique could have never started this war and could have never carried it on for four years, had not the owners of German industries and the working people alike considered it "their own" war. They do not need the paper kings of Poland and Finland, but they need badly the consumer, and, perhaps, ports. Therefore, even *after a political peace* is concluded, *Germany will not cease her economic warfare* against the entire world.

It is generally known, that one of the strongest weapons of Germany in attaining her economic ends, was her extremely active financial policy. Therefore, the Allies and the rest of the world as well, must co-ordinate their financial policies—so to speak, present a united "financial front,"—in order to be able to combat successfully Germany's economic warfare, for it will be hardly possible for them to escape German aggression by purely political measures.

Consequently, it is necessary to take steps at once for the preparation of a plan, outlining the principles for a unified financial policy, to be followed by the establishment of international mediums to execute this policy.

Quick action in this matter is imperative, for there is very serious evidence that Germany is already making preparations

for this new bloodless war, and, it may be said, is financially arming herself "to the teeth." It may easily happen that Germany will "suddenly" appear better prepared in this respect than any other nation, as she was better prepared for the war in 1914.

SITUATION IN COUNTRIES WITH GOLD INFLATION.

The third group comprises those powers in which the war not only did not bring about a paper-money collapse, but, on the contrary, created a so-called gold inflation, i.e., an overflow of gold in the channels of circulation. The position of these countries, regardless of how paradoxical such a remark may seem at first glance, is no less menacing to themselves than it is to their neighbors.

The suffering of the people at large in those countries is certainly no less than in the countries with a paper-money inflation. The high cost of living is appalling, and in line with this, there are cases of individuals and, even groups of the population, becoming scandalously rich. All this creates a psychological basis for the triumph of the social-democratic ideas "made in Germany" and will develop such envy and class hatred as, either today or tomorrow, will result in an outbreak of that same social disease of the spirit that brought ruination to Russia, and which still appears to the befogged judgment of international public opinion in the form of a quasi-political party of Bolsheviks. The nations of the world have not as yet made clear to themselves that this disease in reality is of an international character; that it has nothing specifically Russian, and that if it reached Russia sooner than other countries, it is only because Russia was weaker economically and, besides, was deprived of the leadership and guidance of statesmen having sound economic judgment. The entire Russian society was seized with the inclination to experiment with socialism. It is evident that the nations of the world do not show any serious intentions of profiting by the terrible practical lesson which Russia teaches, and the Bolshevik infection, meanwhile, is not receiving the persistent, merciless resistance from the ruling classes and governments that seems necessary.

The process in the countries with a gold inflation has pursued the following course: With the outbreak of the war the

influx of merchandise from the belligerent countries immediately ceased. The merchandise produced in the interior of the country, under the inducement of attractive war prices, was thrown on the foreign markets in greatly increased quantities. A serious merchandise famine began to be felt; the prices for everything rose in leaps. Simultaneously with the draining of gold by the population (so-called "thesaurisation" of metal money) it became impossible to continue with the former number of monetary symbols. All governments began to intensify the issue of paper money. This paper money, due to the very active trade balances, was splendidly guaranteed by gold, but this fact made it particularly harmful. The war brought all countries to the use of paper money as a substitute for gold, though the paper money is based on gold in the ultimate reckoning. If this substitute, owing to its abundance, exerted a certain pressure on the purchasing power of the gold itself, such an ideal substitute as the paper money of neutral countries, protected by superfluous gold security, could not help but be extraordinarily harmful. It is the paper money of the neutral countries that is principally responsible for the so-called devaluation of gold, or the reduction of its purchasing power, in evidence throughout the world today, and for the deterioration of gold as a basis for the monetary system of the world.

So the nations, which made profits through the war, now have to suffer from three causes, simultaneously acting in the same direction: (1) from the upset of the equilibrium of supply and demand; (2) from money inflation, and (3) from the decrease in the value of gold throughout the world. The economic suffering resulting therefrom will instinctively force the neutral countries to fight these causes. But they will be unable to fight directly the last cause; they will, therefore, concentrate their entire energy on combating the first two. First of all, at the termination of the war there will be a very brisk demand for products of the belligerents that resumed production. It is hardly necessary to prove how important it would be for the Allied countries to systematically direct the purchasing power of the neutrals to Allied merchandise, instead of German. But the decrease in gold resulting from these intensified purchases will not be sufficient to liquidate the gold inflation, and a direct exportation of gold will begin. In connection therewith many

unpleasant surprises may be expected. It is barely possible that this exportation of gold will assume the relatively harmless form of "rich" neutral countries extending credits on safe interest-bearing securities to countries in need of gold.

The war gave birth to a new class of tradesmen in neutral countries—a class of a predatory nature and, perhaps, not of very high standing morally, but certainly possessing a great deal of energy and business ability. This class will not buy government bonds. They will go to foreign countries in search of business of an industrial character. This tendency is in evidence already. During the period of the war, neutral countries have not so much redeemed their national debts as they have emancipated their own industries. But this industrial work in "strange" countries may lead to very undesirable consequences. For instance, Norway and Sweden, who have had extensive experience in the timber industry, are already manifesting a very decided interest in the timber resources of Northern Russia. It may easily happen that, after the liquidation of Bolshevism in Russia, the discovery will be made that all her forests are in the grip of her Northern neighbors, and the world will be confronted by a Universal Timber Trust, controlled by Scandinavia. Similar exploits may occur in great numbers. Hence, the thought arises that the methods employed by neutral countries in the liquidation of their gold inflation must be placed under international control. The fact that neutral countries have accumulated great wealth during the war would seem ample reason for not permitting them to proceed unhampered in hindering the economic rehabilitation of the belligerents at the termination of the war. Rather the thought arises of *urging* them to systematically aid in this rehabilitation.

The creation of a medium of control seems a question requiring speedy action, for the evils arising from the gold inflation, and the premium on gold, particularly in the economically backward countries, are so great and so keenly felt, that they will combat them very vigorously.

Perhaps, we may say, this gold inflation will bring greater trouble than the paper-money inflation and the reduction in the international exchange rate. The depreciation in the exchange rate will hinder import, but will stimulate export. A premium on gold has a tendency to increase imports and causes depression in

home production. "Good" money is not for poor, economically undeveloped countries. A slight "depreciation" in money, in some instances, is even of greater benefit to such countries.

The relation to the national turnover of the number of tools of exchange (money) working in the country is a permanent quantity, or, at least, one that is tending to become permanent. This coefficient acts as though it were a measure of the working capacity of a monetary unit in the prevailing conditions of any given country.

Therefore, when it happens that the quantity of money increases in an economically undeveloped country, through causes having no relation to increased turnover, then life itself increases the aggregate of the national turnover to such a degree that the former equation is re-established. This increase in the amount of the national turnover can be accomplished in three ways: through an increase in production; through an increase in the number of transactions in any one commodity, i. e., through so-called speculation, and through an increase in the prices with each transaction, or through, what is called, increasing the cost of things.

If a stupid government policy (as was the case in Russia) does not prevent "free" money from seeking sound creative business, this capital, driven to the same end by a fluctuation in prices, may sometimes cause such an unusual growth in the productivity of the country as to firmly establish her economically, and the suffering from speculation and from the high cost of commodities may be easily endured.

Of course, all this can take place only within certain boundaries. If governments issue paper money too extensively, a drop in their purchasing power follows so rapidly that intensified production will not only be unable to offset it, but, on the contrary, under the pressure of unrestrained speculation and a fabulous soaring of prices, it will cause such instability of business within the country that manufacturing will have to be curtailed, or even stopped altogether. We have seen this take place in Russia, and it is sure to come in Austria, if not today, then tomorrow.

But paper money inflation does not necessarily bring about a collapse. Sometimes it may pass without causing any serious suffering and without bad results to the country. However, industrial depression inevitably follows gold inflation, as may be

observed at the present time in neutral countries. The customary explanation that their industrial crisis was caused not by gold inflation, but by a reduction in the imports from the countries at war, is hardly tenable. Of course, this holds good only because inflation could not have occurred, had there not been an abrupt abnormal "favorable" change in the trade balances of those countries. However, this is only putting the blame upon a more remote, though serious, cause, and does not in any way discredit the opinion on the effect of direct causes. From this point of view, it can be said that the industrial stagnation in neutral countries was caused by the war, as well as by Germany's policy of aggression and domination, which brought about the war.

Certainly the neutral countries will have to fight this direct cause, and this struggle they will begin immediately upon the conclusion of peace, utilizing in this respect the one advantage that gold inflation has over paper-money inflation—that is, that it can be easily liquidated. The neutral countries, in making this liquidation, may endanger the interests of the household economy of the entire world, as well as their own. Meanwhile, it seems that the war has shown with sufficient clearness that the economic affairs of the entire world are so closely united that it is not possible for any separate nation to "freely" improve* or impair its monetary system, thus escaping the fulfilment of its due share of the work for the welfare of humanity at large. Humanity must, in order to heal the economic wounds inflicted by the war, overcome the universal merchandise famine—consequently, world production must be intensified. It would be immoral to permit separate nations to deliberately impede this process.

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* One of the most popular measures in this field will be the extreme development of protectionism, and even an embargo on imports. In other words, the war may finally result in increasing the economic customs barriers between nations, instead of reducing them, as is advocated by President Wilson. In this respect, the same as in others, Russia went ahead of other countries. The question of an embargo on the importation of luxuries was raised in Russia in the early stages of the war by a member of the State Duma. The list of articles under embargo is very extensive. Import duties were raised from the very first days of the war. Other countries are presenting a similar picture. There is absolutely no reason to expect that individual countries will abrogate these measures, without reaching a common understanding.

The war concentrated in the hands of neutral nations colossal monetary power. They have no moral right to utilize this power at their own discretion. This power, therefore, can be and must be placed under international control, for which purpose plans must be drawn, outlining the principles and object of this control, and controlling organizations established.

BANKING POLICIES OF THE ALLIES AND GERMANY AND THE IMPENDING ECONOMIC SEIZURE OF RUSSIA BY GERMANY THROUGH THE MEDIUM OF THE BANKS.

In the field of finance, there is no question that is any more pressing or fraught with greater danger to the future of the Allied nations than the question of a banking policy.

We cannot deny that, prior to the war, Germany showed the greatest activity in this field and obtained comparatively more successful results.

The question arises: Has it not been brought home to us with absolute clearness, that, after the war, the rôle of the banks must gain greater importance and that, in this deciding branch, the Allies, menaced by most serious consequences, will be obliged to meet Germany after the war with a co-ordinated policy, not so aggressive, perhaps, but always ready and able to resist the aggression of the German banks?

To solve this question it is necessary to examine the basic tendencies of the banking policies prior to the war, as well as the fundamental method by which German capital captured foreign industries.

The following two basic tendencies in the banking policy were in evidence:

(1) The tendency to concentrate.
(2) The tendency toward increasing deposits.

These tendencies were witnessed to an equal degree in all countries, but the attitude of governmental authority and public opinion towards them varied considerably. Only in Germany the government and public opinion, both realizing that the strengthening of the national banking machinery was only one form of increasing the national strength in general, had placed no artificial obstacles in its way. The process of concentration

and the growth of deposits proceeded at their natural pace prior to the war and during the war. During the past thirty years the number of private banks decreased from thirty-seven to six, owing to consolidation and the absorption of one bank by another. Today the three principal German banks—Deutsche Bank, Disconto Gesellschaft and Dresdner Bank—regarding them as one bank, for which there is sufficient reason (for their policies are fully co-ordinated), form the most powerful banking institution in the world. Their deposits amount to 600 million pounds sterling, whereas even the London City & Midland Bank has not more than 230 million pounds sterling. This shows very clearly that Germany is contemplating strengthening her aggressive banking policy after the war.

It is hardly necessary to explain what a menace to the entire world this policy may prove, and how urgently necessary it is, in view of this, to adopt active measures for self-defence.

However, nothing that would resemble preparation is in evidence at this moment.

In this connection, an example set by Russia is of particular interest. The government and public opinion in that country assumed an equally unfavorable attitude towards attempts to strengthen private banks. The Imperial Government was afraid of any manifestations of power within the country, aside from its own power, and therefore put inconceivable obstacles in the way of the natural processes for strengthening the banking apparatus. Public opinion, to a considerable degree, infected by the contagion of sentimental sympathy towards socialism, assumed a very definitely hostile attitude towards everything that had any relation to a bank. It was sufficient for banking institutions to come out with any kind of a project to be met by the public "a priori" with suspicion and with decided disfavor: The banks desired it, therefore we must oppose it. We can recall only one instance, during the past twenty years, of consolidations —that of the Northern Bank and the Russo-Chinese, and perhaps another instance—the formation of the United Bank, composed of the three banks belonging to the banker L. S. Poliakoff, who failed. All other projects were promptly discarded.

It was made exceedingly difficult for banks to increase their capital stock, even when it was required by law—in cases where deposits were ten times in excess of the capital and reserve

stocks. The difficulties encountered were intended to make any new issue of stock as unprofitable to the owners as possible. As a result, the Russian banks are the weakest in the world. Their total capital stock amounts to about Rbs. 1,060,000,000. Russia has 800 branches of banks against 29,000 banks in the United States. It is true that during the war Russian banks had somewhat increased their deposits and their capital stock (thus emancipating themselves, by the way, from foreign influence, for foreigners were deprived of the possibility to take part in the new issues of stock). But the growth of the banks' own capital, as well as of deposits, just contrary to what took place in Germany, could not even catch up with the depreciation of the rouble under the influence of inflation. Even without Bolshevik oppression, the Russian banks, at this moment, would have been considerably weaker than on the eve of the war.

But this fact was not such a terrible menace to the entire economic future of Russia as another condition which was evident during the past eighteen months or two years, namely, the mad policy which, attempting to obstruct the natural law of existence, forced the inevitable process of concentration to take a roundabout course, with results undoubtedly harmful to Russia's national interests. Russia's business world quickly recognized that Russian banks, artificially weakened by the government, with their negligible capital, had little power of resistance from seizure. Therefore, one bank began to buy the shares of another bank, using for this purpose its deposits. This operation was carried out upon the initiative and in the name of some favorite client, who, in this manner, gradually took possession of one bank after another. Clients with debts totalling from 350 to over 500 millions of rubles on call accounts could be found. The Russian banks were thus converted into actual personal banking offices, presided over by individuals with a capital of some ten million rubles or more, who, owing to the unlimited credit extended on special accounts, had the opportunity of buying controlling blocks of stock (under Russian conditions, ordinarily not exceeding 30%), which gave them the right to dispose of the remaining 70% of the capital stock, as well as of the capital of depositors in a number of banks. Since Russian banks are the holders of controlling blocks of stock of the majority of Russian industries, this resulted in individuals becoming at the same time

the masters and the owners of almost the entire industry of Russia.

There is nothing original in this process: this is exactly the same method employed by the Deutsche Bank in seizing the native industries in all parts of the world. Sometimes the controlling rôle of the banks was played through special companies (for instance, in the electrical industry), but the idea remained one and the same: to force local capital to work for the German master in possession of the controlling block, in most cases acquired by a trifling expenditure.

However, the capture of Russia economically by individual persons would not in itself be so fatally dangerous. First, all these persons, and there are few of them, are fortunately truly Russians, bound to Russia by inseparable ties. The ruination of Russia certainly cannot enter into their scheme. On the contrary, their speculative tendency would sooner force them to especially develop the organization of new companies, and Russia needs, first and foremost, the creation of new industries and the development of the old ones. Second, by skilful legislation and administrative influence, their dictatorship in Russia's industrial life, if not entirely annihilated, could have been easily rendered harmless.

But at the height of this process under review came the Bolshevik revolution. The newly-born multi-millionaires were confronted by complete ruin. Some of them are patiently waiting, either in Russia or abroad, for the natural end of Bolshevism. Others, apparently, are inclined, at the price of any sacrifice, to save at least some remnants of their former wealth. Many of these late captains of Russia's industry are either in Stockholm in person, or have their representatives there, and, if they have not already started negotiations for the sale of their stock, they manifest a desire to do so.

There is a ready purchaser for them—in Berlin.

To think that the German Stock Exchange and banking kings doubt for a minute the liquidation of the Bolshevik inventions in the economic field, immediately upon the termination of the war, and the restoration of the right to private property in Russia (particularly of German property) would mean to suspect these people of a lack of elementary historic foresight, of which they were never guilty before.

If they are not already buying Russian stocks at this moment, it is only due to the fact that they expect to buy still cheaper. Furthermore, apparently, the only reason why the Germans have not occupied Petrograd and Moscow is to give the Bolsheviks the opportunity to "deepen" their socialistic experiment. The true servants of the Kaiser, who opened Russia's frontiers and surrendered to Germany ammunition of every description amounting to billions of roubles, without the shedding of a drop of German blood, are now ready to safeguard the surrender of the entire industry, commerce and credit of Russia to the Germans, if not without the expenditure of one German mark, at least, in return for a very limited quantity of these marks.

Besides, Germany does not have to spend any gold in the acquisition of Russian stock. The Russian capitalists will not sell their stock with the object of taking to Russia the remuneration received: they will leave it on current account in the same German banks, or they will purchase with it German securities.

What, then, will be the fate of Russia?

More than a quarter of a century ago, a famous Russian professor, D. I. Mendeleeff, proved with mathematical exactness that Russia will not be able to employ in agriculture her increase in population. The land will not be able to feed the 1½% that was added annually. Therefore, the development of her industries is a question of life and death to Russia. If Russia is unable to become industrialized, there will be only one course open to her—labor barter on a large scale. Russians will have to emigrate in millions to foreign lands in search of a living. It is more than probable that Germany, having seized the Russian banks and the entire Russian industry, will try to keep Russia undeveloped, and will look upon Russia as an inexhaustible source of supply of raw materials and cheap labor power for the dirty work in German industries. The products of her own and the Germanized Russian industries, Germany will sell to the Russian peasant at fabulous prices. All this will give Germany such great industrial and financial power that it will be very easy for her to gradually enslave other nations. What she failed to do by the sword, she will accomplish by the use of gold.

What forces are the Allied nations contemplating to organize to counteract this terrible menace to their future? Of what

consists their preparation to counterbalance the gigantic preparations of Germany?

In Italy only recently they began to talk about co-ordinating the activities of four leading banking institutions (with the exception of the German Banca Commerciale). In France there is even no talk about any kind of a serious concentration and strengthening of the banks. In England, a retrograde movement is noticeable. Public opinion, worried over the fantastic danger of the possible formation of a money trust, demanded from the government a curtailment of the freedom of banks to consolidate. They adopted a decision of purely Russian style—not to prohibit consolidation in general, but to introduce a system of concessions, the government to examine each concrete project for consolidation.

Summarizing, we must inevitably come to the conclusion that the Allies lack a co-ordinated, carefully prepared, definite financial banking policy, and that, for this reason, they will find themselves just as unprepared for the coming economic rivalry, after the war, as they were unprepared in 1914 for the military conflict with Germany.

The only practical solution to this difficulty is: (1) **The immediate drafting of a plan outlining the principles for an Allied banking policy,** and (2) **the taking of steps to prevent Germany seizing the Russian banks.**

Owing to the fact that the matter of executing a general banking policy for Russia is of such magnitude, and so complicated, it will require the creation of a special banking institution, for it will be absolutely impossible for any bank to handle this as a side issue.

Besides, any belief that it will be possible to overcome German domination in Russia after Germany has taken possession of the Russian banks, merely through the establishment of Allied banks in Russia, must be most emphatically discredited. It took Russian banks decades to build up their network of branches, to secure their connections, to organize their information service and to establish control over industrial companies. If not entirely impossible, it will at least require long years of persistent effort, accompanied by needless waste, for a new foreign bank to accomplish similar results, and to establish firm relations with the economic life of the country.

PARTICIPATION OF THE NEUTRAL COUNTRIES IN THE REHABILITATION OF THE WORLD.

In conclusion, it is necessary to touch upon one more financial question, which has not been brought up as yet by anybody, but which will come to light sooner or later. Undoubtedly, the idea that it is a necessity to extend the tax on the war profits of individual citizens in separate countries to whole nations in the universal family of the world must find its way to the public mind.

If the *public conscience of each separate country* should *regard as immoral* that, at a time when one part of her citizens defended their country with their blood, the other part, protected by the bodies of their brothers, *scandalously profiteered through the national disaster;* if the war income tax is undoubtedly the most popular assessment in all belligerent countries, why, then, should the *world conscience* be silent, when in the period of unprecedented bloodshed and, due to this bloodshed, *separate nations acquired extraordinary wealth?*

It would seem that the ultimate inevitable result of the war—the organization of a league of nations, the destruction of militarism and, if not eliminating war forever, in any event, forestalling the possibility of a new war—would prove such a great blessing for humanity at large, that all humanity, each nation, without exception, should contribute its bit toward the achievement of this ideal. Why, then, should only separate nations pay for this blessing with their blood and money, and other nations should receive it gratis, even more so, grow rich through it?

I think that this question, soon or later, will arise in the world's mind. The economic suffering, which will be felt in its full measure only after peace is concluded, will force it to the foreground.

What is to be done in this direction, is hard to say. Perhaps, it will be necessary to declare, with sufficient emphasis, to the neutral countries that it is their moral obligation to restore neutral Belgium, and Serbia and Poland, who are also neutral in reality, but were only incidentally involved in the whirlpool of the world conflict. Perhaps, more drastic measures will have to be used. But one thing is certain: the question should be raised boldly and frankly, in order that the neutral countries may themselves consider how, and to what extent, they can and should participate in making the peace of the world secure. This is in

their own interests. If we recall the stigma public opinion attaches to individuals, who made profits on the war, it will be hardly possible for whole nations, who accumulated great wealth through the war, to withstand the scorn of the people of all the countries that participated in this war.

URGENT NECESSITY OF A FINANCIAL CONFERENCE.

Summing up the foregoing, we must, it seems, arrive at the conclusion that the **time has matured for convening a special Allied financial conference.** Later on, apparently, the representatives of neutral countries will have to be invited to take part in its work.

It is necessary to emphasize that such a conference should not be combined with the conference for a consideration of economic questions in general. Neither the composition, nor even the place of meeting of the two conferences, can be the same. The general economic conference, of course, should precede the financial conference and should, so to speak, prepare a preliminary plan for the work of the latter. It may be held in any one capital of the Allied countries, to be composed, aside from specialists on economic questions, and, perhaps, a good number of financiers, of government leaders, diplomats, military men and attorneys.

The financial conference, of course, should take place in the financial capital of the world and it should be attended by theoretical financiers, but principally by specialists, with a practical knowledge of financial technique. Many of them, perhaps, may not be of sufficiently high standing in their respective communities to be regarded as authorities on the subject of plans of a general economic character. Their work, however, would consist of working out certain concrete measures, whereby the Allies may be able to carry out their financial policy.

The general aims of the conference may be divided into two parts:

(1) **The immediate restoration of the financial equilibrium of all countries, and, first of all, the rehabilitation of the monetary systems** which will make possible unrestricted international trade.

(2) To **eliminate the possibility of one country being financially oppressed by another,** a situation no less menacing to the general welfare and peace of the entire world than political or military domination.

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